

Duke University
Durham
North Carolina 27708-0001

OFFICE OF THE PRESIDENT
BOX 90001

TELEPHONE (919) 684-2424
FACSIMILE (919) 684-3050

July 31, 2020

The Honorable Emanuel Cleaver, II
United States House of Representatives
Washington, DC 20510

The Honorable Joseph P. Kennedy, III
United States House of Representatives
Washington, DC 20510

Dear Representatives Cleaver and Kennedy:

I write in response to your letter of July 10, 2020, which raised important questions about diversity among asset managers of university endowments.

Last month, I charged our university's leadership to develop and implement a structure for rigorous assessment, accountability and reporting of our progress in: diversifying our faculty, staff and students; expanding our need-based financial aid; and promoting excellence through increased diverse leadership opportunities at all levels of the organization. This will also include required anti-racism and anti-bias training, enhanced support for students and employees experiencing racial injustice, and holding leadership accountable for promoting a more inclusive and equitable Duke.

Our efforts will not stop with hiring practices, support programs, increasing diversity of our student body, and keeping better track of our progress. We also need to evaluate and study where, and with whom, we invest our resources.

At Duke, the university's endowment assets are managed by DUMAC, which is a non-profit support corporation organized and controlled by Duke University. DUMAC's fiduciary obligation calls for it to maximize the value of the assets it manages on behalf of Duke, which in turn allows Duke to pursue our mission on a sustainable basis. The Duke community, including DUMAC, shares the belief that this fiduciary obligation and a commitment to diversity are consistent and compatible with one another.

In response to your letter, the following provides more detail on DUMAC, its manager selection process, and its commitment to diversity and inclusion.

DUMAC

In 1989, Duke University's Board of Trustees approved the creation of Duke Management Company as a separate, non-profit support corporation of the university. The organization began operating in July 1990, and over time, evolved into DUMAC. DUMAC provides investment management and related services on a not-for-profit, cost-sharing basis to Duke University, Duke University Health System, Inc., the Employees' Retirement Plan of Duke University, and The Duke Endowment, a private charitable trust that provides substantial support to the university and also has other beneficiaries. DUMAC is controlled by its Board of Directors, operates under a trustee-approved investment policy, and has been delegated broad authority in managing the university endowment investments. DUMAC currently has a staff of approximately 50 employees and works with the assistance of approximately 128 asset management firms to help the university meet its investment goals.

Manager Selection Process

DUMAC seeks to provide equal opportunity to diverse-owned asset managers,¹ particularly through working with emerging managers. As most recently stated in the Duke University Board of Trustees "Guideline on Investment Responsibility," published on May 8, 2020, DUMAC upholds Duke's institutional values, and is committed to responsible investing, considering issues of integrity, quality, environmental impact, ethics, and governance, and invests its financial assets in ways that are both financially prudent and in keeping with these institutional values. In accord with your letter, DUMAC shares the view that asset management firms, which value diversity at all levels of their organizations, can perform better.

DUMAC currently works with approximately 128 third-party asset managers, which it has selected to assist in managing the university endowment assets.² Of these 128 asset managers, 52 (or approximately 40%) are diverse-owned firms. In total, these diverse-owned asset managers actively manage \$2.5 billion (or approximately 35%) of the university endowment assets. While Duke and DUMAC alike recognize this is an area where we can do better, we believe the fact that more than one-third of the firms are diverse-owned demonstrates that DUMAC's philosophy, process, and people have worked together to show respect for the crucial principle of diversity.

Given its role as a support corporation for the university, DUMAC generally does not maintain its own public profile. DUMAC has no website and has not otherwise sought to publish and disseminate statements about itself, its personnel, its portfolio, or its investment process. Because of the important questions raised in your letter, provided below is an overview of the third-party asset manager selection process.

¹ The term diverse, as used herein, includes persons identifying as non-white, women or other gender minorities.

² This data reflects university endowment assets that are actively managed by third-party asset managers, a total of \$7.2 billion in assets globally, and does not include the university endowment assets that are managed directly by DUMAC personnel or assets that DUMAC manages for Duke University Health System, Inc., the Employees' Retirement Plan of Duke University, and The Duke Endowment.

DUMAC's third-party asset manager selection process starts with a team of seven in-house investment managers, four of whom are diverse. These in-house investment managers are charged with identifying potential third-party asset managers that fit within DUMAC's investment mandate. DUMAC's in-house investment managers spend a large portion of their time meeting and establishing relationships with third-party asset managers, evaluating their track records, and gaining a thorough understanding of their investment philosophy to ensure alignment with DUMAC's investment mandate. At the end of this process, DUMAC's in-house investment managers may recommend the addition of a third-party asset manager to a list under consideration and draft an internal investment memorandum outlining the reasons for a potential partnership with the third-party asset manager. This is a collaborative process with the chief investment officer during which all of the DUMAC in-house investment managers are encouraged to share their perspectives - creating better decisions and thus better investment outcomes.

Of particular relevance to your inquiries are DUMAC's philosophy and history with emerging managers. DUMAC has over 20 years of experience working with, and has invested billions of dollars with, emerging managers. DUMAC has focused on identifying and investing with emerging managers in both public and private equities and believes this focus stands out as one of its key competitive advantages. This effort covers very small investment shops, ones with little or no assets under management, for which DUMAC is often the key source of seed and anchor capital. Several of these asset management firms are diverse-owned. By providing this early-stage risk capital, DUMAC can be instrumental in the development of emerging and diverse managers. This is especially the case in the asset management industry, where strategic and significant seed and anchor investment can validate an emerging manager's viability and, as a result, serve as a catalyst to attract other outside capital.

Commitments

DUMAC understands, embraces, and shares the priority and importance Duke places on diversity, and provides the following information related to its ongoing diversity and inclusion initiatives:

- a. *Tracking and Reporting.* In 2019, DUMAC began tracking the diversity metrics of the assets managers in its portfolio and going forward will track the diversity metrics of the asset managers placed on DUMAC's list of third-party asset managers under consideration. DUMAC is committed to formalizing this effort to enhance the understanding of DUMAC's in-house investment managers' approach to diversity and examine DUMAC's own biases in its third-party asset manager sourcing efforts.
- b. *Continue to actively seek emerging managers.* DUMAC has invested in emerging managers, providing essential seed and anchor capital on numerous occasions, including to emerging managers that are diverse-owned, and where diverse individuals are key principals. Building on the success of investing with emerging managers, DUMAC will continue to actively seek emerging managers, particularly those that are diverse-owned.

- c. *Establish Diversity & Inclusion Committee.* DUMAC is establishing a Diversity & Inclusion Committee to examine DUMAC's diversity and inclusion efforts. This step aligns with my message in June to the Duke community. The initiative recognizes that DUMAC can do more to diversify the third-party asset managers it partners with, and is committed to doing more to accomplish this goal.
- d. *Communication on DUMAC's priorities internally and externally.* DUMAC will continue to engage in and encourage dialogue, seek to educate, and prioritize diversity and inclusion in the asset management industry. This dialogue will include DUMAC's staff, particularly the in-house investment managers who play a pivotal role in the third-party asset manager selection process.
- e. *Outreach to diverse asset managers.* DUMAC will continue to identify ways to increase outreach to inform diverse-owned asset managers about investment opportunities and selection processes.

I can say with confidence and without hesitation that the Duke community, including DUMAC, is committed to working to address the concerns in your letter.

Sincerely,

A handwritten signature in blue ink, appearing to read "V. Price".

Vincent E. Price
President